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TAGS: [PREL](#) [EFIN](#) [ECON](#) [CVIS](#) [SOCI](#) [AE](#)
SUBJECT: UAE AFFIRMS SUPPORT DURING ECONOMIC RECOVERY

Classified by Ambassador Richard Olson, reasons 1.4 (b, d).

11. (U) This cable contains an action request in para 18.

12. (C) Summary. On July 15, Treasury Secretary Timothy Geithner met with UAE Government and finance officials to discuss developments in the global economy, review U.S. measures to address the financial crisis, and stress the importance of cooperation on regional issues such as Iran and Afghanistan. Geithner met with Abu Dhabi Investment Authority (ADIA) Managing Director Sheikh Ahmed bin Zayed al Nahyan, Central Bank Governor Sultan bin Nasser al Suweidi, Central Bank Chairman Khalil al Foulathi, Deputy Finance Ministry Younis Khoury, Abu Dhabi Department of Economy Chairman Nasser Suweidi, and Abu Dhabi Investment Council (ADIC) Managing Director Khalifa al Kindi. The Secretary was joined by Assistant Secretary David Cohen, Acting Assistant Secretary Andy Baukol, Ambassador Olson and Treasury Attach.

13. (U) Secretary Geithner also attended a breakfast with 11 leading Emiratis to discuss the role of education in economic development in the Gulf and various challenges facing the UAE in this regard. The event was hosted by the U.S.- UAE Business Council and moderated by the UAE Minister of Foreign Trade Sheikha Lubna al Qassimi. Minister of State Reem al-Hashemy and ALDAR Chairman Ahmed al Sayegh attended among others. End Summary.

ABU DHABI SWFS EXAMINE US RECOVERY

14. (S) In meetings with senior officials from ADIA and ADIC, Secretary Geithner reviewed U.S. and international progress on addressing the financial crisis and restarting economic growth. He also detailed efforts on financial sector reforms. ADIA MD Sheikh Ahmed bin Zayed al Nahyan thanked the Secretary for his visit to Abu Dhabi, characterized relations between the U.S. and Abu Dhabi on financial issues as very strong, and expressed his commitment to further enhance and deepen this relationship.

15. (S) Sheikh Ahmed praised the U.S. for its leadership and its swift and unprecedented action to address the crisis and preserve the financial system. He believes the U.S. is ahead of the rest of the world in terms of implementing measures to address the crisis. Sheikh Ahmed said that the U.S. is the top destination for ADIA investment, and this will remain. He was confident that the U.S. economy will remain the most important in the world, retaining its status as the world's engine.

16. (S/NF) With respect to ADIA's balance sheet, Sheikh Ahmed stated that investment reallocation may occur, including potential reductions in investments, but not more than 5% of ADIA's total assets. He said the adjustment was possible, but not certain, and did not indicate any change in ADIA's fundamental view of the U.S. Secretary Geithner thanked Sheikh Ahmed for his coordination on issues of macro economic stability and encouraged ADIA to handle its affairs in a manner consistent with furthering financial sector stability and economic growth.

¶17. (S) Regarding the crisis, Sheikh Ahmed blamed 'huge greed' as the trigger and pressed for solutions so the system will not be fragile again. He pointed to the existence of a 'gambling tendency' as responsible for significant damage to the financial sector, and stated that this activity must stop. He called for a return to efficient markets where prices reflect economic fundamentals, rather than speculation. Sheikh Ahmed complained about wild swings in oil prices that make it difficult for ADIA to manage its balance sheet - whether the fluctuations are up or down. He complained that hedge funds damage markets and asked if the U.S. would allow this situation to continue. He hoped that U.S. efforts to reform financial sector oversight would instill confidence for the future.

¶18. (S) ADIA and ADIC officials expressed concern about the value of the dollar in light of highly expansionary fiscal and monetary measures. They asked about noises from China and Russia suggesting replacement of the dollar as the world reserve currency. ADIA shared that 50% of its assets are dollar denominated, including major holdings of Treasury securities.

¶19. (C) Secretary Geithner described the necessary deleveraging process underway in the U.S. and steps to manage the process to avoid collateral damage. Secretary Geithner explained broad U.S. strategy to deal with the financial crisis, including efforts to address issues globally through the G-20. He underlined U.S. commitment to a strong dollar, low inflation and a quick return to fiscal discipline once growth is firmly established. He expressed confidence in the Federal Reserve's ability to rapidly unwind its expansionary monetary policies when the time is right in order to avoid the onset of inflation. He expressed confidence that U.S. banks are taking the necessary steps to return to financial health. Geithner described controlling health care cost as central to managing U.S. deficits post-crisis and underlined U.S. resolve to work through the crisis, a long process that will not be over quickly. Geithner characterized Chinese and Russian statements on the dollar as politically motivated remarks that do not reflect actual implementation of their financial policies.

¶10. (C) ADIC MD Khalifa al Kindi reviewed Dubai's current economic hardship. He expressed confidence that after a period of flat growth, Dubai would bounce back as no other city in the region can match its achievements. He questioned Secretary Geithner on the Treasury Department's Public Private Investment Program, including possible reactions should foreign investors ultimately reap healthy profits. ADIC asked if any changes were planned for Section 892 of the IRS code addressing taxation of income of foreign governments. Secretary Geithner stated that the Treasury Department has looked at it. He promised to return to ADIC with additional detail.

CENTRAL BANK ON THE REGIONAL ECONOMY

¶11. (S) Central Bank Governor Sultan al Suweidi reviewed impact of the global crisis and slowdown on the UAE economy and financial sector. He detailed UAEG measures to support the banking system and restore confidence. The Governor expects further deterioration in real estate assets in the UAE, but was confident the banking sector could handle the adjustment. He mentioned plans to issue sovereign debt at the federal level, a first for the UAE.

¶12. (S) In response to the Secretary's statements on the dollar, the Governor assured him that the UAE is a strong supporter of the dollar, and pointed to his recent public remarks to this effect. The Governor asked if the U.S. Treasury was interested in the emergence of another reserve currency. Geithner responded that having the dollar as the reserve currency was good for the world and good for the U.S.

¶13. (S) The Governor stated that at times the region runs short of physical U.S. dollars and asked for the placement of cash dollars in the UAE on consignment, should the region need it. He mentioned that during times of regional instability, including possible conflict with Iran, large number of people withdraw cash and flee, which can cause complications if bills are not readily available. Secretary Geithner promised to raise the issue with the Federal Reserve and respond to the Governor.

¶14. (S) The Governor also asked about the possibility of swap arrangement with the Fed that he said was offered during the last administration. (NOTE: In 2008, officials from the Federal Reserve Bank of New York met with the Governor. Embassy staff was not included in the meeting, and therefore has no details on possible discussions of a swap arrangement. END NOTE.) Secretary Geithner expressed skepticism that the Fed would support this request, but promised to pass it along.

EDUCATION AND THE ECONOMY

¶15. (U) During the breakfast event, Secretary Geithner explained that a primary focus of his trip to the Gulf region was to follow up on the vision laid out by President Obama in the Cairo speech to broaden and deepen relations between the U.S. and the Muslim world. Geithner was told of UAE's struggle to reclaim its educational system from an incompetent bureaucracy and foreign national spreading Muslim Brotherhood ideology. He learned of UAE efforts to modernize and enhance its primary and secondary educational system to match the standards set by leading international schools.

¶16. (U) Ahmed al Sayegh and Reem al Hashemy encouraged U.S. institutions to step up their commitments to expand educational opportunities in the UAE. They called for more direct investment in education over inconsequential ventures like al Hurra TV. Maytha al Habsi from Takatof talked about building relationships between Emirati foundations and U.S. foundations. Secretary Geithner suggested that they organize a conference of foundations.

¶17. (U) Reem al Hashemy spoke of the unbreakable bond with the U.S. held by all Emiratis that attend university in America. Her colleagues spoke of roundly positive experiences in America, living with American families, and learning about American values. Reem described herself and fellow nationals educated in the U.S. as "ambassadors" for the United States, advocating for the U.S. in their personal and professional lives. She said we need to create more champions for the U.S. The guests uniformly lamented visa measures instituted since 9/11 that have disqualified or discouraged scores of Emiratis from studying in the U.S. While they acknowledged progress in the last couple of years, they declared the current state of affairs as not good enough.

¶18. Action requests:

¶A. Address ADIC's question regarding Section 892 of the IRS code.

¶B. Respond to the Central Bank Governor regarding consignment of dollars in the UAE.

¶C. Respond to the Central Bank Governor regarding the swap arrangement.

¶19. (SBU) This cable has been cleared by Andy Baukol, Acting Assistant Secretary for International Affairs.

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